1. **EXAMINE THE CONSEQUENCES OF THE EMERGING DEBT CRISIS IN DEVELOPING COUNTRIES AROUND THE WORLD. (ANSWER IN 150 WORDS)**

Approach:

- Introduce with some data about the growing debt crisis in developing countries.
- Bring out the consequences of the debt crisis in developing countries around the world.
- Conclude accordingly.

Answer:

In 2022, **global public debt** reached a **record USD 92 trillion** out of which developing countries owe almost 30%. **Developing countries' total public debt** increased from **35% of GDP in 2010 to 60% in 2021.**

The consequences of emerging debt crisis in developing countries around the world are as follows:

  - **Impact on welfare policies:** Developing countries' debt crisis impacts investment in welfare measures for citizens.
  - For example, the lives of **3.3 billion people in 48 countries** are directly affected by **underinvestment in education or health** due to large interest payment burdens.
- **Reduced investment in sustainable development:** When developing countries borrow money, they have to pay much higher interest rates which undermines their **debt sustainability** and progress towards sustainable development.
  - For example, **countries in Africa** borrow on average at rates that are **four times higher** than those of the **United States**.
- **Widening the rich-poor gap:** Managing the debt can lead to economic contraction, lower growth rates, and prolonged periods of recession in developing countries, thus further widening the gap between rich and poor countries.
  - For example, in 2021, **one-third of the public spending** of the poorest countries was for **debt service payments**, while the ratio was only **21 per cent for the richest countries.**
- **Social unrest:** To address unsustainable debt levels and access international finance, **austerity measures** are required like spending cuts, tax hikes, etc. It can exacerbate poverty and unemployment, leading to social unrest and political instability.
  - For example, **the debt crisis in Sri Lanka** led to protests against its President.
- **Spillover effects:** The consequences of a debt crisis in one country can spill over to other economies and regions as happened earlier during the **Latin American debt crisis (1970-89) and Asian Financial Crisis (1990-2001).**
- **Reversal of socio-economic development:** Debt crisis leading to sovereign debt defaults have catastrophic economic and social costs, leading to a reversal of years of progress.
  - For example, World Bank research shows that within three years of a debt default, affected countries **lost 8% of GDP**. Further, Headcount **poverty rates increased by 70%** one year after the default.

In this context, debt transparency and better debt management are the keys to sustainable public borrowing and ensuring steady progress towards economic stability and growth of a country.

Plot-1441, Opp. IOCL Petrol Pump, CRP Square, Bhubaneswar-751015
Ph.: 8984111101, 8093083555. Web: www.vanikias.com, E-mail: vaniksias@gmail.com